

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS  
Years ended December 31, 2011 and 2010**

# CORNING MUNICIPAL UTILITIES CORNING, IOWA

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**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**OFFICIALS**

<b><u>NAME OF OFFICIAL</u></b>	<b><u>OFFICIAL TITLE</u></b>	<b><u>TERM EXPIRES</u></b>
Scott Akin	Trustee	January 01, 2015
Don Kenworthy	Trustee	January 01, 2017
Steve Stueckradt	Trustee	January 01, 2013
Tim Larsen	General Manager	Indefinite
Loretta Wetzel	Office Manager	Indefinite



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Corning Municipal Utilities  
Corning, Iowa

We have audited the accompanying balance sheets of Corning Municipal Utilities, a component unit of the City of Corning, Iowa, and the related statements of operations, fund equity, cash flows and indebtedness for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Corning Municipal Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corning Municipal Utilities as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 26, 2012, on our consideration of Corning Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Corning Municipal Utilities' basic financial statements. The supplemental information included in Schedules 1 - 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kiesling Associates LLP*

West Des Moines, Iowa  
April 26, 2012

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Corning Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the year ended December 31, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements which follow.

**2011 Financial Highlights**

- Revenues of the Utilities' enterprise activities decreased 1.89%, or approximately \$72,000, from 2010 to 2011.
- Program expenses increased 3.30%, or approximately \$94,000, from 2010 to 2011. Water, electric and gas expenses increased (decreased) approximately \$132,000, \$17,000 and \$(55,000), respectively.
- The Utilities' fund equity increased 12.00%, or approximately \$681,000, from December 31, 2010, to December 31, 2011. Of this amount, the net assets of water, electric, gas and agency funds increased (decreased) by approximately \$102,000, \$383,500, \$197,500 and \$(2,000), respectively.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial statements.

The Financial Statements consist of a Balance Sheet, Statement of Operations, Statement of Fund Equity, Statement of Cash Flows and the Statement of Indebtedness. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the separate funds. In addition, a schedule of plant for each fund provides details about the additions and retirements made during the year ended December 31, 2011.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in the Utilities' fund equity may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Operations presents information showing how the Utilities' fund equity changed during the most recent year. All changes in fund equity are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Operations report one kind of activity:

- Business type activities include the waterworks, electrical and gas departments. These activities are financed primarily by user charges.

*Fund Financial Statements*

The Utilities has two kinds of funds:

- (1) Proprietary funds account for the Utilities' Enterprise Funds. Proprietary funds account for most of the Utilities' basic services. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the Balance Sheet and the Statement of Operations. The Enterprise Funds include the Water, Electric and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong.

The financial statements required for proprietary funds include a balance sheet, statement of operations, changes in fund equity and a statement of cash flows.

- (2) Fiduciary funds account for the Utilities' Agency Funds. These are funds through which the Utilities accounts for billing and collection of the City of Corning's garbage and sewer fees.

The Utilities is responsible for ensuring assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Utilities excludes these activities from the financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary fund equity and a statement of changes in fiduciary fund equity.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS**

As noted earlier, fund equity may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the fund equity for business type activities.

<u>Fund Equity at Year-end</u>		
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 7,423,166	\$ 7,695,126
Capital assets	<u>8,499,415</u>	<u>8,506,355</u>
Total assets	<u>15,922,581</u>	<u>16,201,481</u>
Long-term liabilities	8,152,905	9,129,973
Other liabilities	<u>1,409,026</u>	<u>1,392,115</u>
Total liabilities	<u>9,561,931</u>	<u>10,522,088</u>
Fund equity:		
Invested in capital assets, net of related debt	3,737,008	3,357,582
Restricted	29,706	31,596
Unrestricted	<u>2,593,936</u>	<u>2,290,215</u>
Total fund equity	<u>\$ 6,360,650</u>	<u>\$ 5,679,393</u>

Net assets of business type activities increased from 2010 by approximately \$681,000, or 12.00%. The largest portion of the Utilities' fund equity is invested in capital assets (e.g., land, buildings, infrastructure and equipment), less related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted fund equity represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted fund equity, the part of fund equity that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$2,593,936 at the end of the year. The excess is due to the new ethanol facility paying the loan payments related to the debt the Utilities' had to obtain in order to complete installation of new water mains and gas lines to provide service to the ethanol plant.



**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**INDIVIDUAL MAJOR FUND ANALYSIS**

**Proprietary Fund Highlights**

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended 2011 with a \$1,824,502 fund equity balance compared to the prior year ending fund equity balance of \$1,722,537.

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical distribution and generation systems, ended 2011 with a \$3,553,800 fund equity balance compared to the prior year ending fund equity balance of \$3,170,274.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' natural gas system, ended 2011 with a \$952,642 fund equity balance compared to the prior year ending fund equity balance of \$754,986. The following are the major reasons for the changes in fund balances in the major proprietary funds from the prior year.

- The Water Fund saw a decrease in revenue due to increased operating expenses, however it has seen consistent revenues from billings and also had minimal interest expense since the ethanol facility is providing the funds to make the principal and interest payments related to the financing obtained to complete construction to be able to provide service to the ethanol facility.
- The Gas Fund saw a decrease in the cost of purchased energy which also resulted in a decrease in gas services provided as a portion of the rate charged is variable in accordance with the market.
- The Electric Fund saw a decrease in revenue as a result of fewer kilowatts being billed and consumed.

**Agency Fund Highlights**

The Sewer Fund, which accounts for the billing and collection of the City of Corning's sewer system, ended 2011 with an \$18,378 fund equity balance compared to the prior year ending fund equity balance of \$22,483.

The Garbage Fund, which accounts for the billing and collection of the City of Corning's garbage collection system, ended 2011 with an \$11,328 fund equity balance compared to the prior year ending fund equity balance of \$9,113.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the Utilities did not amend its budget.

The Utilities' receipts were \$521,748 less than budgeted receipts, a variance of 11%. The most significant variance resulted from the Utilities receiving less from charges for services and miscellaneous items than anticipated.

Total cash disbursements were \$1,498,856 less than budgeted. This was primarily due to the cost of purchased energy being less than anticipated.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Utilities' capital assets include land, buildings and improvements, equipment, water distribution systems, electrical distribution systems, gas distribution systems and other infrastructure. Capital assets for business type activities totaled \$8,499,415 (net of accumulated depreciation) at December 31, 2011 and \$8,506,355 (net of accumulated depreciation) as of December 31, 2010. See the accompanying notes to the financial statements for more information about the Utilities' capital assets.

The major capital outlays for business type activities during the year included additions to poles and fixtures and distribution plant.

**Long-Term Debt**

At December 31, 2011 and 2010, the Utilities had \$7,836,999 and \$8,632,582, respectively, in total long-term debt outstanding for business type activities. Other obligations include compensated absences and unearned revenue. Additional information about the Utilities' long-term debt is presented in Note 5 to the financial statements.

**ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE**

Several economic factors affected decisions made by the Utilities in setting its 2012 budget. Some of these factors included the plans for increased capacity needs for customers and rate increases that were put into effect.

**CONTACTING THE UTILITIES' MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities' finances and operating activities. If you have any questions or require additional information please contact the General Manager, Corning Municipal Utilities, 501 Benton Avenue, Corning, Iowa 50841.

## **FINANCIAL STATEMENTS**

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit A**

**BALANCE SHEETS  
December 31, 2011 and 2010**

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
ELECTRIC PLANT IN SERVICE	\$ 5,208,150	\$ 4,837,304
Less accumulated depreciation	<u>2,373,572</u>	<u>2,305,728</u>
	2,834,578	2,531,576
Electric plant under construction	<u>-</u>	<u>201,706</u>
	<u>2,834,578</u>	<u>2,733,282</u>
 WATER PLANT IN SERVICE	 7,437,018	 7,382,907
Less accumulated depreciation	<u>1,912,093</u>	<u>1,734,649</u>
	<u>5,524,925</u>	<u>5,648,258</u>
 GAS PLANT IN SERVICE	 822,642	 807,848
Less accumulated depreciation	<u>682,730</u>	<u>683,033</u>
	<u>139,912</u>	<u>124,815</u>
 RESTRICTED ASSETS		
Cash-security deposits	57,165	51,790
Water plant project	123,622	120,867
Electric Revenue Bond Sinking Fund	<u>135,555</u>	<u>181,685</u>
	<u>316,342</u>	<u>354,342</u>
 NONCURRENT ASSETS		
Notes receivable, less current portion	3,527,104	4,082,960
Unamortized debt issuance costs	118,747	134,878
Intangibles	<u>45,000</u>	<u>45,000</u>
	<u>3,690,851</u>	<u>4,262,838</u>
 CURRENT ASSETS		
Cash and cash equivalents	1,783,630	1,431,504
Temporary investments	472,991	516,124
Customers accounts receivable	123,963	149,116
Unbilled revenues	311,578	314,454
Other accounts receivable	26,801	27,780
Notes receivable	545,313	502,134
Plant materials and operating supplies	126,619	117,957
Prepaid insurance	<u>25,078</u>	<u>18,877</u>
	<u>3,415,973</u>	<u>3,077,946</u>
 TOTAL ASSETS	 <u>\$ 15,922,581</u>	 <u>\$ 16,201,481</u>

The accompanying notes are an integral part of these financial statements.

## Exhibit A

## LIABILITIES AND FUND EQUITY

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit B**

**STATEMENTS OF OPERATIONS  
Years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Electric service	\$ 1,894,930	\$ 1,944,097
Water service	809,226	812,482
Gas service	917,338	936,746
SIRWA revenue	<u>116,836</u>	<u>116,836</u>
	<u>3,738,330</u>	<u>3,810,161</u>
<b>OPERATING EXPENSES</b>		
Purchased energy	1,373,902	1,483,924
Salaries and benefits	557,200	455,539
Operations and maintenance	490,272	384,113
Depreciation	361,082	355,610
Administrative and general	<u>151,926</u>	<u>161,818</u>
	<u>2,934,382</u>	<u>2,841,004</u>
<b>OPERATING INCOME</b>	<u>803,948</u>	<u>969,157</u>
<b>OTHER INCOME (EXPENSE)</b>		
Income from merchandising and custom work, net	15,314	23,094
Interest income	368,118	420,449
Other income charges	<u>(19,649)</u>	<u>(19,737)</u>
	<u>363,783</u>	<u>423,806</u>
<b>INCOME BEFORE FIXED CHARGES</b>	<u>1,167,731</u>	<u>1,392,963</u>
<b>FIXED CHARGES</b>		
Interest	487,348	555,995
Allowance for funds used during construction	<u>(2,764)</u>	<u>-</u>
	<u>484,584</u>	<u>555,995</u>
<b>NET INCOME</b>	<u>\$ 683,147</u>	<u>\$ 836,968</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit C**

**STATEMENTS OF FUND EQUITY  
Years ended December 31, 2011 and 2010**

	Invested in Capital Assets, Net of Related Debt	Fund Balance Agency Funds	Unrestricted	Total
Balance at December 31, 2009	\$ 2,999,464	\$ 64,348	\$ 1,811,365	\$ 4,875,177
Add:				
Net income from enterprise funds	-	-	836,968	836,968
Net change in agency funds	322,009	-	(322,009)	-
Depreciation provision	(355,610)	-	355,610	-
Restricted cash expended	2,721	-	(2,721)	-
Amortization of debt issuance costs	(16,130)	-	16,130	-
Repayment of long-term debt	760,375	-	(760,375)	-
Collections of note receivable	(472,083)	-	472,083	-
Recognition of unearned revenue	116,836	-	(116,836)	-
Net change in agency funds	<u>-</u>	<u>(32,752)</u>	<u>-</u>	<u>(32,752)</u>
Balance at December 31, 2010	3,357,582	31,596	2,290,215	5,679,393
Add:				
Net income from enterprise funds	-	-	683,147	683,147
Expenditures for capital assets	524,618	-	(524,618)	-
Depreciation provision	(361,082)	-	361,082	-
PUC in prior year	(201,706)	-	201,706	-
Cost of removal	31,230	-	(31,230)	-
Restricted cash expended	2,755	-	(2,755)	-
Amortization of debt issuance costs	(16,131)	-	16,131	-
Repayment of long-term debt	2,151,133	-	(2,151,133)	-
Proceeds from long-term debt	(1,355,550)	-	1,355,550	-
Collections of note receivable	(512,677)	-	512,677	-
Recognition of unearned revenue	116,836	-	(116,836)	-
Net change in agency funds	<u>-</u>	<u>(1,890)</u>	<u>-</u>	<u>(1,890)</u>
Balance at December 31, 2011	<u>\$ 3,737,008</u>	<u>\$ 29,706</u>	<u>\$ 2,593,936</u>	<u>\$ 6,360,650</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit D**

**STATEMENTS OF CASH FLOWS  
Years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 683,147	\$ 836,968
Adjustments to reconcile net income to net cash provided by operating activities:		
Sewer and garbage billings less amount remitted to City	(1,890)	(32,752)
Depreciation	361,082	355,610
Unearned revenues	(116,836)	(116,835)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables/unbilled	29,008	27,126
Prepayments	(6,201)	(7,074)
Materials and supplies	(8,662)	(11,137)
Unamortized debt issuance costs	16,131	16,130
Increase (Decrease) in:		
Accounts payable, advance payments and deposits	(11,013)	(20,541)
Compensated absences	4,530	(67,953)
Net cash provided by operating activities	<u>949,296</u>	<u>979,542</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Change in restricted assets	<u>38,000</u>	<u>(9,256)</u>
Net cash provided by (used in) non-capital financing activities	<u>38,000</u>	<u>(9,256)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(364,167)	(284,105)
Cost of removal, net of salvage	(31,230)	-
Repayment of long-term debt	(2,151,133)	(760,375)
Proceeds from long-term borrowing	1,355,550	-
Net cash used in capital and related financing activities	<u>(1,190,980)</u>	<u>(1,044,480)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of temporary investments	186,646	345,552
Collection of notes receivable	512,677	472,083
Purchase of temporary investments	(143,513)	(351,020)
Net cash provided by investing activities	<u>555,810</u>	<u>466,615</u>
Net Increase in Cash and Cash Equivalents	352,126	392,421
Cash and Cash Equivalents at Beginning of Year	<u>1,431,504</u>	<u>1,039,083</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,783,630</u>	<u>\$ 1,431,504</u>

The accompanying notes are an integral part of these financial statements.



**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit E**

**STATEMENT OF INDEBTEDNESS  
Year ended December 31, 2011**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue Bonds									
Water	4/16/2002	3.00%	<u>\$4,005,080</u>	<u>\$2,682,000</u>	<u>\$ -</u>	<u>\$ (189,000)</u>	<u>\$2,493,000</u>	<u>\$ 77,537</u>	<u>\$ 6,147</u>
Electric	5/15/2005	3.5-4.8%	<u>\$2,000,000</u>	<u>\$1,460,000</u>	<u>\$ -</u>	<u>\$ (1,460,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water	8/31/2006	8.25%	<u>\$1,505,000</u>	<u>\$1,045,041</u>	<u>\$ -</u>	<u>\$ (157,152)</u>	<u>\$ 887,889</u>	<u>\$ 83,040</u>	<u>\$ 18,263</u>
Gas	8/31/2006	8.50%	<u>\$4,450,000</u>	<u>\$3,445,541</u>	<u>\$ -</u>	<u>\$ (344,981)</u>	<u>\$3,100,560</u>	<u>\$ 285,693</u>	<u>\$ 65,706</u>
Electric	3/17/2011	1.05-3.35%	<u>\$1,355,550</u>	<u>\$ -</u>	<u>\$1,355,550</u>	<u>\$ -</u>	<u>\$1,355,550</u>	<u>\$ 54,492</u>	<u>\$ 2,563</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Corning Municipal Utilities is a component unit of the City of Corning whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The Utilities' board of trustees operates the City Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. Corning Municipal Utilities provides water, electric and gas services on a user charge basis to the general public and other governmental units within Adams County, Iowa.

Basis of Presentation

The accounting policies of Corning Municipal Utilities conform to accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Management has evaluated subsequent events through April 26, 2012, the date the financial statements were available for issue.

Government-wide Financial Statements - The Balance Sheet and the Statement of Operations report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Balance Sheet presents the Utilities' nonfiduciary assets and liabilities, with the difference reported as fund equity. Fund equity is reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted fund equity* results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted fund equity* consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued)

The Statements of Operations demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Reporting Entity

The financial statements include enterprise and agency funds of Corning Municipal Utilities (herein referred to as "the Utilities"), a component unit of the City of Corning, Iowa.

Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenues and expenditures or expenses. The various funds and their designated purposes are as follows:

Proprietary Funds

Enterprise Funds - Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The Enterprise Funds include electric, water and gas operations.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Utilities as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations. The Agency Funds include sewer and garbage service monies collected and held by the Utilities as an agent for the City of Corning, Iowa, which operates these facilities.

Measurement Focus and Basis of Accounting

Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus and Basis of Accounting (Continued)

The proprietary funds of the Utilities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The assets and liabilities of the Agency Funds are accounted for using the modified accrual basis of accounting.

Restricted Assets

Funds set aside for payment of Enterprise Funds revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Customer Accounts and Unbilled Usage

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Temporary Investments

Investments with a maturity of less than one year are considered temporary investments and are carried at cost.

Plant Materials and Operating Supplies

Plant materials and operating supplies are valued at the lower of cost or market with cost determined by the average cost method.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

Capital assets are reported in the applicable fund and are recorded at historical cost if purchased or constructed. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized.

Long-Lived Assets

The Utilities would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Revenue Recognition

The Utilities recognizes revenues related to the Enterprise Funds when earned regardless of the period in which they are billed.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2011, disbursements did not exceed the budgeted amount.

**NOTE 2. DEPOSITS AND INVESTMENTS**

The Utilities' deposits at December 31, 2011, were entirely covered by federal depository insurance or by the Iowa State Sinking Fund for banks and savings associations in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Investments are stated at fair value.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 2. DEPOSITS AND INVESTMENTS (Continued)**

The Utilities' deposits and investments at December 31, 2011, are shown below:

Change and petty cash fund	\$ 300
Checking accounts	2,099,672
Certificates of deposit	<u>472,991</u>
Total cash, cash equivalents and temporary investments	<u>\$ 2,572,963</u>

**NOTE 3. CAPITAL ASSETS**

The provisions for depreciation for 2011 and 2010 are \$361,082 and \$355,610, respectively. The depreciation provision was charged to expense against the following operations:

	<u>2011</u>	<u>2010</u>
Electric	\$ 159,655	\$ 155,076
Water	181,301	179,533
Gas	<u>20,126</u>	<u>21,001</u>
	<u>\$ 361,082</u>	<u>\$ 355,610</u>

At December 31, 2011 and 2010, utility plant in service included the following major classifications:

	<u>2011</u>	<u>2010</u>
Electric Plant in Service:		
Production Plant	\$ 2,932,635	\$ 2,932,635
Transmission Plant	701,352	432,735
Distribution Plant	1,334,879	1,232,650
General Plant	<u>239,284</u>	<u>239,284</u>
Subtotal	<u>5,208,150</u>	<u>4,837,304</u>
Water Plant in Service:		
Source of Supply and Pumping Plant	5,639,517	5,636,380
Distribution Plant	1,576,174	1,525,200
General Plant	<u>221,327</u>	<u>221,327</u>
Subtotal	<u>7,437,018</u>	<u>7,382,907</u>
Gas Plant in Service:		
Transmission and Distribution Plant	677,560	662,766
General Plant	<u>145,082</u>	<u>145,082</u>
Subtotal	<u>822,642</u>	<u>807,848</u>
Total utility plant in service	<u>\$ 13,467,810</u>	<u>\$ 13,028,059</u>

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 3. CAPITAL ASSETS (Continued)**

The individual rates applied to the average cost of the several classifications of depreciable utility plant produced the following composite depreciation rates for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Electric	3.22 %	3.25 %
Water	2.45 %	2.44 %
Gas	2.47 %	2.65 %

**NOTE 4. INTANGIBLES**

During 2003, the Utilities entered into an agreement with MidAmerican Energy to purchase six customers at a cost of \$45,000.

The Utilities annually assesses its recorded balances of goodwill and indefinite lived intangible assets for impairment. As a result, the Utilities determined no impairment needed to be recorded for the years ended December 31, 2011 and 2010.

**NOTE 5. BONDS PAYABLE**

Annual debt service requirements to maturity for Water, Electric and Gas Revenue Bonds are as follows:

Year Ending December 31	Revenue Bonds Water		Revenue Bonds Electric		Revenue Bonds Water		Revenue Bonds Gas	
	Issued April 16, 2002		Issued March 17, 2011		Issued August 31, 2006		Issued August 31, 2006	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 195,000	\$ 71,777	\$ 140,000	\$ 14,233	\$ 170,384	\$ 69,808	\$ 374,929	\$ 255,746
2013	200,000	65,852	145,000	15,194	184,731	55,461	407,475	223,200
2014	206,000	59,762	145,000	17,664	200,286	39,906	442,846	187,829
2015	213,000	53,477	150,000	18,511	217,150	23,042	481,288	149,387
2016	219,000	46,997	150,000	17,838	115,338	4,758	523,067	107,608
2017	226,000	40,322	155,000	15,952	-	-	568,472	62,202
2018	232,000	33,452	160,000	13,646	-	-	302,483	12,855
2019	239,000	26,387	165,000	9,938	-	-	-	-
2020	247,000	19,097	145,550	4,876	-	-	-	-
2021	254,000	11,582	-	-	-	-	-	-
2022	262,000	3,893	-	-	-	-	-	-
	<u>\$ 2,493,000</u>	<u>\$ 432,598</u>	<u>\$ 1,355,550</u>	<u>\$ 127,852</u>	<u>\$ 887,889</u>	<u>\$ 192,975</u>	<u>\$ 3,100,560</u>	<u>\$ 998,827</u>

The Water Revenue Bonds issued on April 16, 2002, were issued for the purpose of defraying the cost of constructing a new water plant facility. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 5. BONDS PAYABLE (Continued)**

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing a new water treatment facility as approved in the project plan.

The Utilities is not required to establish a sinking or reserve account by the Water Revenue Bond resolution.

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2011.

The Electric Revenue Bonds issued on May 15, 2005, were issued for the purpose of defraying the cost of constructing new generators. These bonds were called and reissued on March 17, 2011. The bonds are payable solely from the income and proceeds of the Electric Fund in accordance with the bond agreement. The proceeds of the Electric Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the electric revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Electric Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing new generators as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Electric Revenue Bond resolution and has done so in accordance with the agreement.

Of the funds received for the Electric Revenue Bonds, all funds were advanced as of December 31, 2011.

The Water Revenue Bonds issued on August 31, 2006, were issued for the purpose of defraying the cost of installing new water mains to the ethanol plant. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.



**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 5. BONDS PAYABLE (Continued)**

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of installing new water mains to the industrial park as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Water Revenue Bond resolution. The Utilities is billing the ethanol plant, which is now in operation, monthly for the principal and interest payments that will be due. During 2008, new Iowa Public Agency Investment Trust (IPAIT) accounts were set up to document this better and directly set the funds aside.

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2011.

The Gas Revenue Bonds issued on August 31, 2006, were issued for the purpose of defraying the cost of installing new gas lines to the ethanol plant from the main connection point. The bonds are payable solely from the income and proceeds of the Gas Fund in accordance with the bond agreement. The proceeds of the Gas Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the gas revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Gas Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of installing new gas mains to the industrial park as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Gas Revenue Bond resolution. The Utilities is billing the ethanol plant, which is now in operation, monthly for the principal and interest payments that will be due. During 2008, new IPAIT accounts were set up to document this better and directly set the funds aside.

Of the funds received for the Gas Revenue Bonds, all funds were advanced as of December 31, 2011.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 6. COMPENSATED ABSENCES**

The Utilities' employees accumulate vacation hours for subsequent use or for payment upon retirement. Upon retirement, the Utilities pay up to 200 hours of accumulated vacation. Any vacation accumulated is allowed to be taken while in the employment of the Utilities.

As of December 31, 2011 and 2010, respectively, the liability for accrued vacation is \$27,861 and \$23,331.

**NOTE 7. UNEARNED REVENUE**

In conjunction with the construction of the new water treatment facility, the Utilities received \$2,336,716 from Southwestern Iowa Rural Water Association (SIRWA) related to future usage of the new water plant facility. As of December 31, 2011 and 2010, the amount unearned is \$1,168,358 and \$1,285,194, respectively. SIRWA does not possess any ownership rights in the water plant facility. Therefore, the payment received from them is being recognized as revenue over the period of repayment of the bonds used to purchase the new facility (20 years).

The unearned revenue will be recognized as follows:

2012	\$	116,836
2013		116,836
2014		116,836
2015		116,836
2016		116,836
2017-2022		584,178

**NOTE 8. PENSION AND RETIREMENT BENEFITS**

Corning Municipal Utilities contributes to the Iowa Public Employees' Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% (previously 4.5% through June 2011) of their annual covered salary and the Utilities is required to contribute 8.07% (previously 6.95% through June 2011) of annual covered salary. Certain employees in special risk occupations and the Utilities contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the three years ended December 31, 2011, 2010, and 2009, were \$28,556, \$24,323 and \$23,667, respectively, equal to the required contributions for each year.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 9. DEFERRED COMPENSATION PLAN**

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows the Utilities' employees to defer a portion of their current salary until future years. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the Utilities, without being restricted to the provision of benefits under the plan, subject only to the claims of the Utilities' general creditors.

The Utilities is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets.

**NOTE 10. RISK MANAGEMENT**

Corning Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. The Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11. CONCENTRATION OF CREDIT RISK**

The Utilities grants credit to its customers, all of whom are located in the municipal service area.

**NOTE 12. RELATED PARTY TRANSACTIONS**

The Utilities had business transactions totaling \$966 and \$527 between the Utilities and a Board member during the years ended December 31, 2011 and 2010, respectively.

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

In 2008, the Utilities entered into a purchase commitment to purchase all gas requirements from Interstate Municipal Gas Agency. This contract expires July 31, 2027.

**NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION**

Accounts payable includes \$41,255 at December 31, 2010 relating to utility plant and equipment additions placed in service or under construction during 2010.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**NOTE 15. NOTES RECEIVABLE**

The Utilities entered into a note receivable agreement with Poet Biorefining in 2007. The notes receivable was originally recorded for \$5,955,000. The note calls for monthly payments to be received equal to the debt service requirements of the 2006 water and gas revenue bonds disclosed in Note 5. The outstanding balance at December 31, 2011 and 2010 on this note receivable is \$4,072,417 and \$4,585,094, respectively.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis)  
Year ended December 31, 2011**

	GAAP Basis Financial Statements	Adjustments	Adjusted to Cash Basis	Cash Basis Budget	Variance
Receipts					
Charges for services	\$ 3,738,330	\$ (94,323)	\$ 3,644,007	\$ 3,665,000	\$ (20,993)
Use of money and property	368,118	522	368,640	8,300	360,340
Miscellaneous	15,314	5,426	20,740	892,466	(871,726)
	<u>4,121,762</u>	<u>(88,375)</u>	<u>4,033,387</u>	<u>4,565,766</u>	<u>(532,379)</u>
Disbursements					
Cash	3,077,533	6,453	3,083,986	4,593,473	1,509,487
Noncash	361,082	(361,082)	-	N/A	-
	<u>3,438,615</u>	<u>(354,629)</u>	<u>3,083,986</u>	<u>4,593,473</u>	<u>1,509,487</u>
Excess of receipts over disbursements	683,147	266,254	949,401	(27,707)	977,108
Add (Reduce):					
Operating activities cash flow	268,039	(268,039)	-	N/A	
Cost of removal	(31,230)	-	(31,230)	N/A	
Capital expenditures	(364,167)	-	(364,167)	N/A	
Note receivable collection	512,677	-	512,677	N/A	
Debt financing activities	(795,583)	-	(795,583)	N/A	
Net payment of agency funds	<u>(1,890)</u>	<u>1,785</u>	<u>(105)</u>	<u>N/A</u>	
Net funds increase (decrease)	<u>270,993</u>	<u>-</u>	<u>270,993</u>	<u>(27,707)</u>	
Beginning funds January 1, 2011	<u>2,301,970</u>	<u>-</u>	<u>2,301,970</u>	<u>1,400,340</u>	
Ending funds December 31, 2011	<u>\$ 2,572,963</u>	<u>\$ -</u>	<u>\$ 2,572,963</u>	<u>\$ 1,372,633</u>	

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY REPORTING  
Year ended December 31, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

## **OTHER SUPPLEMENTARY INFORMATION**



**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 1**

**BALANCE SHEET BY DEPARTMENT  
December 31, 2011**

	ASSETS					
	Electric	Water	Gas	Sewer	Garbage	Total
ELECTRIC PLANT IN SERVICE	\$ 5,208,150					\$ 5,208,150
Less accumulated depreciation	<u>2,373,572</u>					<u>2,373,572</u>
	2,834,578					2,834,578
WATER PLANT IN SERVICE		\$ 7,437,018				7,437,018
Less accumulated depreciation		<u>1,912,093</u>				<u>1,912,093</u>
		5,524,925				5,524,925
GAS PLANT IN SERVICE			\$ 822,642			822,642
Less accumulated depreciation			<u>682,730</u>			<u>682,730</u>
			139,912			139,912
RESTRICTED ASSETS						
Cash-security deposits	56,110	115	940			57,165
Water plant project	-	123,622	-			123,622
Electric Revenue Bond Sinking Fund	<u>135,555</u>	<u>-</u>	<u>-</u>			<u>135,555</u>
	191,665	123,737	940			316,342
OTHER NONCURRENT ASSETS						
Notes receivable, less current portion	-	735,767	2,791,337			3,527,104
Unamortized debt issuance costs	19,833	54,608	44,306			118,747
Intangibles	<u>45,000</u>	<u>-</u>	<u>-</u>			<u>45,000</u>
	64,833	790,375	2,835,643			3,690,851
CURRENT ASSETS						
Cash and cash equivalents	772,615	230,173	731,460	\$ 32,484	\$ 16,898	1,783,630
Temporary investments	393,420	-	79,571	-	-	472,991
Customers accounts receivable	59,720	16,263	14,776	23,216	9,988	123,963
Unbilled revenues	154,844	46,769	109,965	-	-	311,578
Interfund receivable (payable)	566,835	(434,848)	(131,987)	-	-	-
Other accounts receivable	747	18,211	7,843	-	-	26,801
Notes receivable	-	170,384	374,929	-	-	545,313
Plant materials and operating supplies	43,606	53,211	29,802	-	-	126,619
Prepaid insurance	<u>13,274</u>	<u>6,756</u>	<u>5,048</u>	<u>-</u>	<u>-</u>	<u>25,078</u>
	2,005,061	106,919	1,221,407	55,700	26,886	3,415,973
TOTAL ASSETS	<u>\$ 5,096,137</u>	<u>\$ 6,545,956</u>	<u>\$ 4,197,902</u>	<u>\$ 55,700</u>	<u>\$ 26,886</u>	<u>\$ 15,922,581</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 1**

**BALANCE SHEET BY DEPARTMENT  
December 31, 2011**

**LIABILITIES AND FUND EQUITY**

	Electric	Water	Gas	Sewer	Garbage	Total
<b>FUND EQUITY</b>						
Invested in capital assets, net of related debt	\$ 1,543,861	\$ 1,943,223	\$ 249,924	\$ -	\$ -	\$ 3,737,008
Fund balance-agency funds (restricted)	-	-	-	18,378	11,328	29,706
Unrestricted	2,009,939	(118,721)	702,718	-	-	2,593,936
	<u>3,553,800</u>	<u>1,824,502</u>	<u>952,642</u>	<u>18,378</u>	<u>11,328</u>	<u>6,360,650</u>
 <b>LONG-TERM LIABILITIES</b>						
Compensated absences	13,931	6,965	6,965			27,861
Unearned revenue	-	1,168,358	-			1,168,358
Long-term debt	1,215,550	3,015,505	2,725,631			6,956,686
	<u>1,229,481</u>	<u>4,190,828</u>	<u>2,732,596</u>			<u>8,152,905</u>
 <b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>						
Customer deposits	<u>56,110</u>	<u>115</u>	<u>940</u>			<u>57,165</u>
 <b>CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS</b>						
Accounts payable	116,746	48,291	136,795	37,322	15,558	354,712
Advanced payments	-	116,836	-	-	-	116,836
Current portion of long-term debt	140,000	365,384	374,929	-	-	880,313
	<u>256,746</u>	<u>530,511</u>	<u>511,724</u>	<u>37,322</u>	<u>15,558</u>	<u>1,351,861</u>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 5,096,137</u>	<u>\$ 6,545,956</u>	<u>\$ 4,197,902</u>	<u>\$ 55,700</u>	<u>\$ 26,886</u>	<u>\$ 15,922,581</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 2**

**SCHEDULE OF INCOME AND FUND EQUITY BY DEPARTMENT  
Year ended December 31, 2011**

	Electric	Water	Gas	Total (Memorandum Only)
<b>OPERATING REVENUES</b>				
Residential sales	\$ 789,155	\$ 463,252	\$ 388,827	\$ 1,641,234
Commercial sales	483,269	293,959	337,287	1,114,515
Public authority sales	620,998	43,803	187,983	852,784
SIRWA revenue	-	116,836	-	116,836
Other miscellaneous	1,508	8,212	3,241	12,961
	<u>1,894,930</u>	<u>926,062</u>	<u>917,338</u>	<u>3,738,330</u>
<b>OPERATING EXPENSES</b>				
Purchased energy	938,037	-	435,865	1,373,902
Operations and maintenance	144,902	330,510	14,860	490,272
Depreciation	159,655	181,301	20,126	361,082
Customer records and collections	2,000	-	7,200	9,200
Total customer accounts expense	<u>1,244,594</u>	<u>511,811</u>	<u>478,051</u>	<u>2,234,456</u>
Administrative and general salaries	189,709	185,177	182,314	557,200
Office supplies and expense	5,073	5,270	6,076	16,419
Outside services employed	16,104	9,036	8,349	33,489
General insurance	17,739	9,078	11,098	37,915
General administration	17,174	17,619	18,286	53,079
Total administrative and general expense	<u>245,799</u>	<u>226,180</u>	<u>226,123</u>	<u>698,102</u>
Use tax	1,066	-	758	1,824
Total general taxes	<u>1,066</u>	<u>-</u>	<u>758</u>	<u>1,824</u>
Total operating expenses	<u>1,491,459</u>	<u>737,991</u>	<u>704,932</u>	<u>2,934,382</u>
<b>OPERATING INCOME</b>	<u>403,471</u>	<u>188,071</u>	<u>212,406</u>	<u>803,948</u>
<b>OTHER INCOME (EXPENSE)</b>				
Income from merchandising and custom work, net	14,731	3,407	(2,824)	15,314
Interest income	6,447	80,664	281,007	368,118
Other income charges	8,200	(13,298)	(14,551)	(19,649)
	<u>29,378</u>	<u>70,773</u>	<u>263,632</u>	<u>363,783</u>
<b>INCOME BEFORE FIXED CHARGES</b>	<u>432,849</u>	<u>258,844</u>	<u>476,038</u>	<u>1,167,731</u>
<b>FIXED CHARGES</b>				
Interest	52,087	156,879	278,382	487,348
Allowance for funds used during construction	(2,764)	-	-	(2,764)
	<u>49,323</u>	<u>156,879</u>	<u>278,382</u>	<u>484,584</u>
<b>NET INCOME</b>	<u>383,526</u>	<u>101,965</u>	<u>197,656</u>	<u>683,147</u>
<b>FUND EQUITY, JANUARY 1, 2011</b>	<u>3,170,274</u>	<u>1,722,537</u>	<u>754,986</u>	<u>5,647,797</u>
<b>FUND EQUITY, DECEMBER 31, 2011</b>	<u>\$ 3,553,800</u>	<u>\$ 1,824,502</u>	<u>\$ 952,642</u>	<u>\$ 6,330,944</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 3**

**SCHEDULE OF AGENCY FUND NET ASSETS  
December 31, 2011**

	Agency Funds 12/31/2010	Billed	Collected	Paid	Agency Funds 12/31/2011
<u><b>ASSETS</b></u>					
Non-pooled cash:					
Sewer rental	\$ 36,981	\$ -	\$ 54,120	\$ (58,617)	\$ 32,484
Garbage collection	12,506	-	18,229	(13,837)	16,898
Total cash	<u>49,487</u>	<u>-</u>	<u>72,349</u>	<u>(72,454)</u>	<u>49,382</u>
Receivables:					
Sewer rental	25,066	453,575	(455,425)	-	23,216
Garbage collection	8,683	162,517	(161,212)	-	9,988
Total receivables	<u>33,749</u>	<u>616,092</u>	<u>(616,637)</u>	<u>-</u>	<u>33,204</u>
Payables:					
Sewer rental	(39,564)	(466,280)	-	468,522	(37,322)
Garbage collection	(12,076)	(157,239)	-	153,757	(15,558)
Total payables	<u>(51,640)</u>	<u>(623,519)</u>	<u>-</u>	<u>622,279</u>	<u>(52,880)</u>
Net assets held in agency funds	<u>\$ 31,596</u>	<u>\$ (7,427)</u>	<u>\$ (544,288)</u>	<u>\$ 549,825</u>	<u>\$ 29,706</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 4**

**SCHEDULE OF ELECTRIC PLANT  
Year ended December 31, 2011**

	Balance December 31, 2010	Additions	Retirements	Balance December 31, 2011
<b>Production Plant:</b>				
Land	\$ 66,520	\$ -	\$ -	\$ 66,520
Structures and improvements	272,637	-	-	272,637
Fuel holders, producers and accessories	18,467	-	-	18,467
Generators	2,274,387	-	-	2,274,387
Accessory electric equipment	300,624	-	-	300,624
	<u>2,932,635</u>	<u>-</u>	<u>-</u>	<u>2,932,635</u>
<b>Transmission Plant:</b>				
Station equipment	388,603	-	-	388,603
Poles and fixtures	36,068	304,685	(36,068)	304,685
Overhead conductors and devices	8,064	-	-	8,064
	<u>432,735</u>	<u>304,685</u>	<u>(36,068)</u>	<u>701,352</u>
<b>Distribution Plant:</b>				
Poles, towers and fixtures	154,467	4,432	(19,264)	139,635
Overhead conductors and devices	301,451	46,974	(2,862)	345,563
Underground conduit	72,871	-	-	72,871
Underground conductors and devices	176,987	7,150	(1,351)	182,786
Line transformers	177,000	43,890	(1,036)	219,854
Services	173,084	11,571	-	184,655
Meters	135,949	11,075	-	147,024
Street lighting and signal system	40,841	1,650	-	42,491
	<u>1,232,650</u>	<u>126,742</u>	<u>(24,513)</u>	<u>1,334,879</u>
<b>General Plant:</b>				
Office furniture and equipment	27,113	-	-	27,113
Transportation equipment	163,078	-	-	163,078
Tools, shop and garage equipment	24,672	-	-	24,672
Laboratory equipment	724	-	-	724
Power operated equipment	17,668	-	-	17,668
Communication equipment	6,029	-	-	6,029
	<u>239,284</u>	<u>-</u>	<u>-</u>	<u>239,284</u>
	<u>\$ 4,837,304</u>	<u>\$ 431,427</u>	<u>\$ (60,581)</u>	<u>\$ 5,208,150</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 5**

**SCHEDULE OF WATER PLANT  
Year ended December 31, 2011**

	Balance December 31, 2010	Additions	Retirements	Balance December 31, 2011
Source of Supply and Pumping Plant:				
Land and land rights	\$ 142,538	\$ -	\$ -	\$ 142,538
Structures and improvements	3,986,949	-	-	3,986,949
Collection and impounding reservoir	76,493	-	-	76,493
Lakes, rivers and other intakes	100,108	-	-	100,108
Supply mains	303,128	-	-	303,128
Electronic pumping equipment	354,606	-	-	354,606
Pumping and treatment equipment	672,558	4,647	(1,510)	675,695
	<u>5,636,380</u>	<u>4,647</u>	<u>(1,510)</u>	<u>5,639,517</u>
Distribution Plant:				
Distribution system and standpipes	559,408	48,544	-	607,952
Transmission and distribution mains	774,774	2,221	(178)	776,817
Meters and customer premise equipment	151,770	2,556	(2,169)	152,157
Hydrants	39,248	-	-	39,248
	<u>1,525,200</u>	<u>53,321</u>	<u>(2,347)</u>	<u>1,576,174</u>
General Plant:				
Furniture and office equipment	58,368	-	-	58,368
Transportation equipment	49,019	-	-	49,019
Work equipment	6,690	-	-	6,690
Laboratory equipment	23,907	-	-	23,907
Power operated equipment	78,805	-	-	78,805
Communication equipment	4,538	-	-	4,538
	<u>221,327</u>	<u>-</u>	<u>-</u>	<u>221,327</u>
	<u>\$ 7,382,907</u>	<u>\$ 57,968</u>	<u>\$ (3,857)</u>	<u>\$ 7,437,018</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 6**

**SCHEDULE OF GAS PLANT  
Year ended December 31, 2011**

	Balance December 31, 2010	Additions	Retirements	Balance December 31, 2011
Transmission and Distribution Plant:				
Transmission mains	\$ 119,876	\$ -	\$ -	\$ 119,876
Structures and improvements	45,378	-	-	45,378
Distribution mains	318,881	190	-	319,071
Measure and regulating station equipment	41,647	18,926	(20,049)	40,524
Meters	136,984	16,107	(380)	152,711
	<u>662,766</u>	<u>35,223</u>	<u>(20,429)</u>	<u>677,560</u>
General Plant:				
Work equipment	92,809	-	-	92,809
Furniture and office equipment	38,425	-	-	38,425
Transportation equipment	13,848	-	-	13,848
	<u>145,082</u>	<u>-</u>	<u>-</u>	<u>145,082</u>
	<u>\$ 807,848</u>	<u>\$ 35,223</u>	<u>\$ (20,429)</u>	<u>\$ 822,642</u>

See Accompanying Independent Auditor's Report



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Corning Municipal Utilities  
Corning, Iowa

We have audited the financial statements of Corning Municipal Utilities as of and for the year ended December 31, 2011, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated April 26, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Corning Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Corning Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-11 and II-B-11 to be material weaknesses.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-C-11 and II-D-11 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corning Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the entity's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees and customers of Corning Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Corning Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Kiesling Associates LLP*

West Des Moines, Iowa  
April 26, 2012

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2011**

**Part I: Summary of Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2011**

**Part II: Findings Related to the Financial Statements:**

**MATERIAL WEAKNESSES:**

II-A-11      Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response - The Utilities believes this approach provides a cost effective solution in light of their limited resources.

Conclusion - Response acknowledged.

II-B-11      Antifraud Program - The Utilities has obtained an awareness of the implication of fraud in their business, but has yet to develop a formal antifraud program with stated control processes. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. The development of an antifraud program may not be a cost effective solution in light of your limited resources.

Response - The Utilities believes this approach provides a cost effective solution in light of their limited resources.

Conclusion - Response acknowledged.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2011**

**SIGNIFICANT DEFICIENCIES:**

II-C-11      Accounting Assistance - The Utilities has a limited number of personnel, as a result, it has utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries. While the Utilities reviews and approves the results of these activities, they recognize these activities meet the definition of a significant deficiency as defined above. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. This approach may be the best cost effective solution in light of your limited resources.

Response - The Utilities believes this approach provides a cost effective solution in light of their limited resources.

Conclusion - Response acknowledged.

II-D-11      Review Financial Results - Management and the board of trustees periodically review financial results of the Utilities.

Recommendation - Governance of this process would be enhanced through a management discussion and analysis of key changes in elements of the financial statements from prior periods and budget. Also, periodic educational sessions with the board on key financial and regulatory topics would enhance the board's ability to govern the Utilities.

Response - We will consider this.

Conclusion - Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2011**

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-11      Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2011.
- III-B-11      Certified Budget - Disbursements during the year ended December 31, 2011, were within the amounts budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."
- III-C-11      Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 29, 1979, were noted.
- III-D-11      Travel Expense - No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials and/or employees were noted.
- III-E-11      Basis of Accounting - Corning Municipal Utilities uses a uniform accounting system and follows the accrual basis of accounting.
- III-F-11      Fixed Asset Record - A detailed record of fixed assets is currently being maintained.
- III-G-11      Bond Coverage - Surety bond coverage of the Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-H-11      Trustee Minutes - No transactions were found that we believe should have been approved in the minutes but were not. The minutes' records were examined and appeared to give a condensed, accurate account of business transacted by the Trustees and were published in accordance with the requirements of the Code of Iowa.
- III-I-11      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2011**

III-J-11      Business Transactions - The business transactions, which came to our attention during the course of our audit between the Utilities and the Utilities' officials and/or employees, are detailed as follows:

Name, Title, and Business & Connection	Description	Total Transactions
Scott Akin (Trustee), Owner, Akin Ltd.	Materials and supplies	\$ <u>966</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Scott Akin (Trustee) do not appear to represent conflicts of interest since his store is the only store in town that carries certain supplies and total transactions were less than \$2,000 during the fiscal year.

III-K-11      Revenue Notes - The only instance of non-compliance noted concerns the water revenue note. The bond requirements state that net revenues should be at least 110% of the amount of principal and interest falling due in the same year. The Utilities is not in compliance with this requirement.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**STAFF**

This audit was performed by:

Paul M. Koster, CPA, Partner  
Jennifer M. Grabner, CPA, Senior Accountant  
Aiden A. Schade, SeniorAccountant